


ORCHAN MINES LIMITED

ANNUAL REPORT 1972



Digitized by the Internet Archive
in 2024 with funding from
University of Alberta Library

https://archive.org/details/Orch1625_1972

ORCHAN MINES LIMITED

HEAD OFFICE: Suite 4500, Commerce Court West,
Toronto, Ontario M5L 1B6

MINE OFFICE: Matagami, Quebec

DIRECTORS

J. P. DOLAN

W. S. ROW

MICHEL C. DUMAS

D. E. G. SCHMITT

J. H. STOVEL

OFFICERS

J. P. DOLAN	-	-	-	-	-	-	-	<i>Chairman</i>
D. E. G. SCHMITT	-	-	-	-	-	-	-	<i>President</i>
J. H. STOVEL	-	-	-	-	-	-	-	<i>Vice-President</i>
R. C. ASHENHURST	-	-	-	-	-	-	-	<i>Secretary</i>
E. K. CORK	-	-	-	-	-	-	-	<i>Treasurer</i>
B. C. BONE	-	-	-	-	-	-	-	<i>Assistant Treasurer</i>
V. H. K. SCOTT	-	-	-	-	-	-	-	<i>Comptroller</i>

TRANSFER AGENT AND REGISTRAR: THE STERLING TRUSTS CORPORATION, Toronto, Ontario

ANNUAL MEETING: May 4, 1973, 11.30 a.m. Toronto Time, Royal York Hotel, Toronto, Ontario

DIRECTORS' REPORT TO THE SHAREHOLDERS

This 20th annual report includes the consolidated balance sheet as of December 31, 1972, a consolidated statement of operations for the year 1972, and the report of the auditors. A report from the Mine Manager, Mr. J. W. Jordan, summarizing operations at the minesites is also included.

Earnings per share were 57¢ as compared with 33¢ in 1971. Four interim dividends, each of 10¢ per share, were paid. To date a total of \$1.75 per share has been paid in dividends and a further 10¢ has been declared payable on March 15 to shareholders of record Feb. 16.

Although the quantity of ore milled was some 32,650 tons less than for 1971, revenue was \$2,033,000 higher mainly due to the improved realization per pound of zinc metal contained in the concentrate produced. Operating forecasts, based on ore reserves and markets for zinc metal, prompted a change from a straight 10% per annum write-off to depreciation of remaining minesite and zinc plant assets over 5 and 10 years respectively from Jan. 1, 1972. The effect of this change increased net income by some \$822,600 for 1972.

GARON LAKE MINE

Expenditures to develop the Garon Lake mine for production were \$442,000 and have totalled \$1,342,000 to date. The project was completed within the budget and time estimates but due to delays in construction of the bridge at the Bell River, only a small amount of the stockpiled development ore was trucked to the Orchan mill prior to year end. Regular production at the rate of 12,000 tons per month began in January. Ore reserves at Jan. 1, 1973 were 395,000 tons with average overall grade of 3.4% zinc and 1.7% copper including 36,000 tons on a surface stockpile.

NORITA DIVISION

On December 28, the Norita property on which diamond drilling had indicated 1,637,000 tons averaging 7.6% zinc, 0.7% copper and 1.0 oz. of silver per ton was acquired by agreements with Norita Quebec Mines Limited and Noranda Mines Limited. The vendors will receive \$500,000 each in payments scheduled quarterly and proportionately to production of the first 2 million tons of ore from the mine which Orchan will develop. After preproduction expenditures and all other costs have been recovered by Orchan, a royalty equivalent to 25% of the net profits from all ore extracted from the mine will be paid to Norita Quebec Mines. Noranda Mines will have the right to elect to participate equally with Orchan in the results of exploration after 2,000,000 tons of ore have been mined from the property.

Costs of mine acquisition and preparation for production at a rate averaging 900 tons daily are estimated to total \$6 million over the three years, 1973 through 1975. Work has been started to prepare the site for sinking a shaft to a depth of 1600 feet. Ore will be trucked 8 miles to be milled at the main Orchan plant site.

CANADIAN ELECTROLYTIC ZINC

Production set a new record and was 145,000 tons of zinc compared with 120,600 tons in 1971. Inventories of both zinc and cadmium were lower at the end of the year.

In December the owners of CEZ approved a proposal to increase plant capacity from 145,000 tons to 225,000 tons of zinc metal per year. The expansion project will cost some \$30 million, including \$3.5 million to improve the existing processes and will be completed in 1975. Orchan will participate to the extent of 10% of the increase in production capacity and the present 18.75% ownership interest will change to 15.8% of the total increased capacity of the plant.

Production at St. Lawrence Fertilizers was close to the practical capacity of the plant. Results were improved due to better realizations on fertilizer sales and lower unit costs resulting from increased production.

ZINC

Free world zinc metal production was at capacity from mid-year reflecting substantially increased consumption particularly in the United States where demand for galvanized steel and brass was strong. Releases from the U.S. stockpile totalled 211,000 tons and imports increased to cover the shortfall arising from smelter closures in recent years. Producer stocks were down 109,000 tons to 250,000 tons at the year end.

The zinc producing industry in the United States continues to press for increased protection on imports of metal and concentrate. A Bill providing for prohibitive duties on imports of zinc metal and concentrate above limits to be established by quotas was not voted on by the U.S. Congress last year but will likely be reintroduced in 1973. Canada supplies 50% of U.S. zinc imports representing 19% of U.S. requirements and the proposed legislation therefore has serious implications for Canadian metal producers and U.S. consumers.

The overseas producer price increased from the equivalent of 17¢ U.S. per pound to 18½¢ U.S. in November. Prices in the U.S. and Canada increased 1¢ in March to 18¢, the ceiling under U.S. phase 2 price controls. The Canadian price increased a further 1¢ in May and ½¢ in November to 19½¢ which also applied to shipments of Canadian zinc to the United States. In December two U.S. producers were permitted cost justified increases of ½¢ to 18½¢ U.S. and in January, when phase 2 price controls were terminated, there were further U.S. price increases to 19-19½¢ per pound.

COPPER

Strong growth in copper consumption during 1972 in the major industrial countries brought balance to the market at year end and firmer prices.

Prices on the London Metal Exchange were the equivalent of 45¢-48¢ U.S. per lb. except for short rises to 53¢ in March and 50¢ in September. The U.S. producers' price rose from 50¼¢ to 52½¢ in February, fell to 50½¢ in July, and rose to 53¢ in January. In Canada where prices were affected by fluctuating exchange rates, an increase of 2¼¢ to 52⅝¢ was posted in February, then adjusted to 52½¢ in May, 51¼¢ in June, 49¾¢ in July, 50½¢ in December, and 53¢ in January as the Canadian dollar reached approximate parity with the U.S. dollar.

Increased consumer demand which commenced in the U.S. and was followed in Europe and Japan has been the major stimulus to higher prices.

GENERAL

The Orchan mine is located some 8 miles from the town of Matagami which is a major marshalling point for access to the projects of the James Bay Development Corporation in northwest Quebec. The population of the town has increased from 2,860 in 1970 to 5,100 at the end of 1972. The 75% increase in the official count within a 2-year period has imposed a considerable strain on the facilities and services which were established for the mining community and has had an adverse effect on the turnover of the work force at the mine.

The town of Matagami is another real example of the contribution made by the mineral industry in advancing the economic development of northern parts of the country. All members of the mine staff have participated to some degree in that development. Your directors wish to record their sincere appreciation for the contributions made to the success of our operations throughout the year by the loyal efforts of the Mine Manager, Mr. J. W. Jordan, the staff and all employees at the work sites.

On behalf of the Board,

J. P. DOLAN,
Chairman.

D. E. G. SCHMITT,
President.

Toronto, Ontario,
February 6, 1973.

MINE MANAGER'S REPORT

To the President and Directors:

This report summarizes operations for the year ended December 31, 1972.

PRODUCTION

The following tabulation presents a comparison of production for the past two years:

	1972*	1971
Ore treated — dry tons	376,840	409,490
Zinc concentrate — dry tons	67,250	74,370
Zinc contained in concentrate — pounds	72,398,990	79,473,270
Copper concentrate — dry tons	14,030	18,780
Copper contained in concentrate — pounds	6,486,140	6,272,400
Silver contained in concentrate — ounces	208,575	254,220
Gold contained in concentrate — ounces	1,158	1,398

* Includes a small tonnage from Garon Lake Mine.

MINE

Underground development advances were:

	1972	1971	To Date
Exploration and development — feet	1,825	3,031	41,397
Stope preparation — feet	6,236	2,544	50,978
Total — feet	8,061	5,575	92,375
Diamond drilling — feet	25,385	29,910	303,224

The 7th (1050') level was advanced 290 feet to the west for exploration purposes. The diamond drilling program to check for mineralization in the key tuffite horizon did not indicate additional ore.

Mine production totalled 372,400 tons of ore of which 39% was taken from No. 1 Open Pit and the balance was mined and hoisted from underground. Some 47% of production was from cut-and-fill stopes.

ORE RESERVES

Proven ore reserves declined by 366,210 tons and at January 1, 1973 were:

Orebody	Tons	% Zinc	% Copper	Ounces/Ton Silver	Gold
No. 1	112,625	13.4	0.8	1.28	0.01
No. 1A	107,400	14.2	2.4	1.01	0.01
No. 2	372,720	10.0	1.2	1.04	0.01
No. 3	841,350	8.2	1.1	1.01	0.01
No. 4	257,215	5.6	0.9	0.46	0.01
No. 5	205,780	9.1	1.3	0.73	0.01
	1,897,090	9.0	1.2	0.93	0.01

CONCENTRATOR

Treatment of ore from the Orchan mine averaged 1,030 tons per day with average grade of 10.6% zinc and 1.05% copper. Metal recoveries were 90.7% and 81.8% respectively.

The custom circuit was started in late December and 2,700 tons of Garon Lake low grade development ore was milled for "tuning up" the equipment.

BELL ALLARD MINES LIMITED

Three diamond drill holes totalling some 1,500 feet were drilled from surface. Two holes on the North group of claims and one on the South group provided negative results.

GARON LAKE DIVISION

Development of stopes in the small orebodies was continued and the 'B' Zone was prepared for production. Late completion of the highway bridge across the Bell River delayed the trucking of ore to the Orchan mill and production at scheduled rates did not begin until 1973.

Stope preparation work totalled 3,140 feet of advance and 23,045 tons of ore were broken in shrinkage stopes.

GENERAL

Labor turnover was considerably higher than in recent years. Nonetheless, production targets were achieved by utilizing alternative methods.

Sixteen mobile dwellings were purchased to provide attractive and competitive accommodation for employees.

I wish to express my appreciation to the Department Heads, Messrs. L. Gendron, Mine Superintendent, J. J. Bell, Concentrator Superintendent, D. Thornham, Mechanical-Electrical Superintendent, F. C. Stokoe, Chief Accountant, and to all employees for their services throughout the year.

Respectfully submitted,

J. W. JORDAN,
Manager.

Matagami, Quebec,
January 8, 1973.

ORCHAN MINES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1972

(with comparative figures at December 31, 1971)

	1972	1971
ASSETS		(note 6)
Current assets:		
Cash and short term deposits	\$ 3,932,050	\$ 2,992,142
Marketable investments, at cost (quoted market value \$3,080,000 in 1972; \$991,000 in 1971)	2,880,393	1,174,287
Accounts receivable	65,954	75,473
Current tax payments recoverable	—	215,951
Metals and concentrates on hand, in transit or due for settlement — at estimated net realizable value	4,612,769	4,705,418
Stores and prepaid expenses — at cost	336,225	323,605
	<u>11,827,391</u>	<u>9,486,876</u>
Taxes recoverable (note 3)	286,355	286,355
Investments in and advances to other companies — at cost less amounts written off	<u>1,544,644</u>	<u>1,548,327</u>
Fixed assets (note 1):		
Land, buildings and equipment, at cost —		
Mine site	9,907,096	9,820,451
Zinc reduction plant	6,245,731	6,008,136
	<u>16,152,827</u>	<u>15,828,587</u>
Less accumulated depreciation	11,626,905	10,952,910
	<u>4,525,922</u>	<u>4,875,677</u>
Mining properties and claims — at cost less amortization	1,181,443	242,127
Garon Lake project under construction	1,407,717	966,098
	<u>7,115,082</u>	<u>6,083,902</u>
Preproduction and deferred development expenditures — at cost less amortization	<u>375,037</u>	<u>693,677</u>
	<u><u>\$21,148,509</u></u>	<u><u>\$18,099,137</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 653,348	\$ 575,416
Taxes payable (notes 2 and 3)	930,038	—
	<u>1,592,386</u>	<u>575,416</u>
Long term liabilities:		
Due on mining properties (note 5)	<u>1,065,000</u>	<u>75,000</u>
Shareholders' equity:		
Capital stock —		
Authorized: 6,500,000 shares of \$1 each		
Issued: 6,058,720 shares	6,058,720	6,058,720
Less net discount	2,613,750	2,613,750
	<u>3,444,970</u>	<u>3,444,970</u>
Retained earnings	15,046,153	14,003,751
	<u>18,491,123</u>	<u>17,448,721</u>
	<u><u>\$21,148,509</u></u>	<u><u>\$18,099,137</u></u>
On behalf of the Board:		
J. P. DOLAN, Director.		
D. E. G. SCHMITT, Director.		

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
		(note 6)
Revenue — from metals and concentrates	\$13,429,707	\$11,396,714
Expense:		
Cost of production	6,801,053	6,259,404
Administrative expense	139,895	141,991
Depreciation (note 1)	773,420	1,568,591
Amortization of mining properties, preproduction and deferred development	379,325	272,903
	8,093,693	8,242,889
Operating income	5,336,014	3,153,825
Investment income	230,840	243,066
	5,566,854	3,396,891
Provision for taxes (notes 2 and 3)	2,100,964	1,385,000
Net income	3,465,890	2,011,891
Retained earnings:		
Opening balance	14,003,751	14,415,348
	17,469,641	16,427,239
Dividends	2,423,488	2,423,488
Closing balance	\$15,046,153	\$14,003,751
Earnings per share (notes 1, 2 and 3)	57¢	33¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
		(note 6)
Working capital, beginning of year	\$ 8,911,460	\$ 8,180,363
Source of funds:		
From operations —		
Net income	3,465,890	2,011,891
Add charges not requiring an outlay of funds:		
Depreciation (note 1)	773,420	1,568,591
Amortization	379,325	272,903
Sundry	3,683	(27)
	4,622,318	3,853,358
Application of funds:		
Fixed assets — mine site	149,025	156,657
— zinc reduction plant	274,640	106,498
Deferred preproduction and development	441,620	435,618
Purchase of mining property, net of amount due	10,000	—
Dividends paid	2,423,488	2,423,488
	3,298,773	3,122,261
Net increase in working capital	1,323,545	731,097
Working capital, end of year	\$10,235,005	\$ 8,911,460

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. As a result of a re-estimation of the remaining life of the mine the company changed from a straight 10% per annum write-off to depreciation of the remaining fixed assets from January 1, 1972, as follows:
mine site assets — over five years
zinc reduction plant — over ten years
As a result of the change, depreciation charges are lower and earnings higher by \$822,600, or 14¢ per share.
2. For the Orchan mine, the company claims capital cost allowances and depreciation for federal income tax and Quebec mining duty purposes in excess of the related amounts in the company's accounts and provides in its accounts for taxes payable on its taxable income for the year.
This accounting treatment differs from the tax allocation basis by which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in 1972, net income would have been reduced by \$150,000 (no material effect in 1971), earnings per share would have been reduced by 3¢ (no material difference in 1971), and the cumulative amount of deferred tax credits to December 31, 1972 would have been \$1,470,000.
3. Bell Allard Mines Limited, a wholly-owned subsidiary consolidated in these accounts, applied to the Department of National Revenue for a three-year exemption from income taxes commencing April 1, 1968. The application has not been granted on the ground that Bell Allard's open pit is an extension to the Orchan mine; however, the directors of Bell Allard dispute this and that company has filed on a tax exempt basis.
If ultimately Bell Allard does not receive the three-year exemption from income taxes, income taxes and accrued interest aggregating approximately \$1,030,000 will be payable but has not been provided for in the accounts. Provision for the 1972 accrued interest included in this sum would have reduced earnings per share by 1¢ (1¢ in 1971). Payments aggregating \$286,355 on income tax assessments, which are being appealed, are shown as non-current income taxes recoverable.
4. In 1963 an action was commenced in the Superior Court of Quebec in which the Plaintiff requested the Court to declare the nullity of the mining concession and the patent therefor issued to Orchan Mines Limited (comprising the whole of the Orchan mining property) and to declare valid and legal the staking by him of certain mining claims covered by this mining concession. The company thereupon filed a defence and Inscription in Law, and since that time no further proceedings have been made by the Plaintiff. In the opinion of the company's solicitors, the action is ill founded.
5. The long term liability of \$990,000 with respect to a mining property acquired in 1972 is payable proportionately to production of the first 2,000,000 tons of ore from the mine which will be developed and prepared for production during the three years 1973 to 1975.
Capital outlays on the development of mining properties and the expansion of the zinc reduction plant over the next three years are expected to be approximately \$10 million, of which \$3.7 million will be spent in 1973.
6. Certain comparative figures have been reclassified to conform with the presentation followed in 1972.
7. Statutory information — total remuneration paid in 1972 to directors of the company consisted of directors' fees of \$1,700. Total remuneration of the five highest paid employees of the company (who are not directors or officers) was \$80,527 and pension benefits totalled \$5,777.

AUDITORS' REPORT

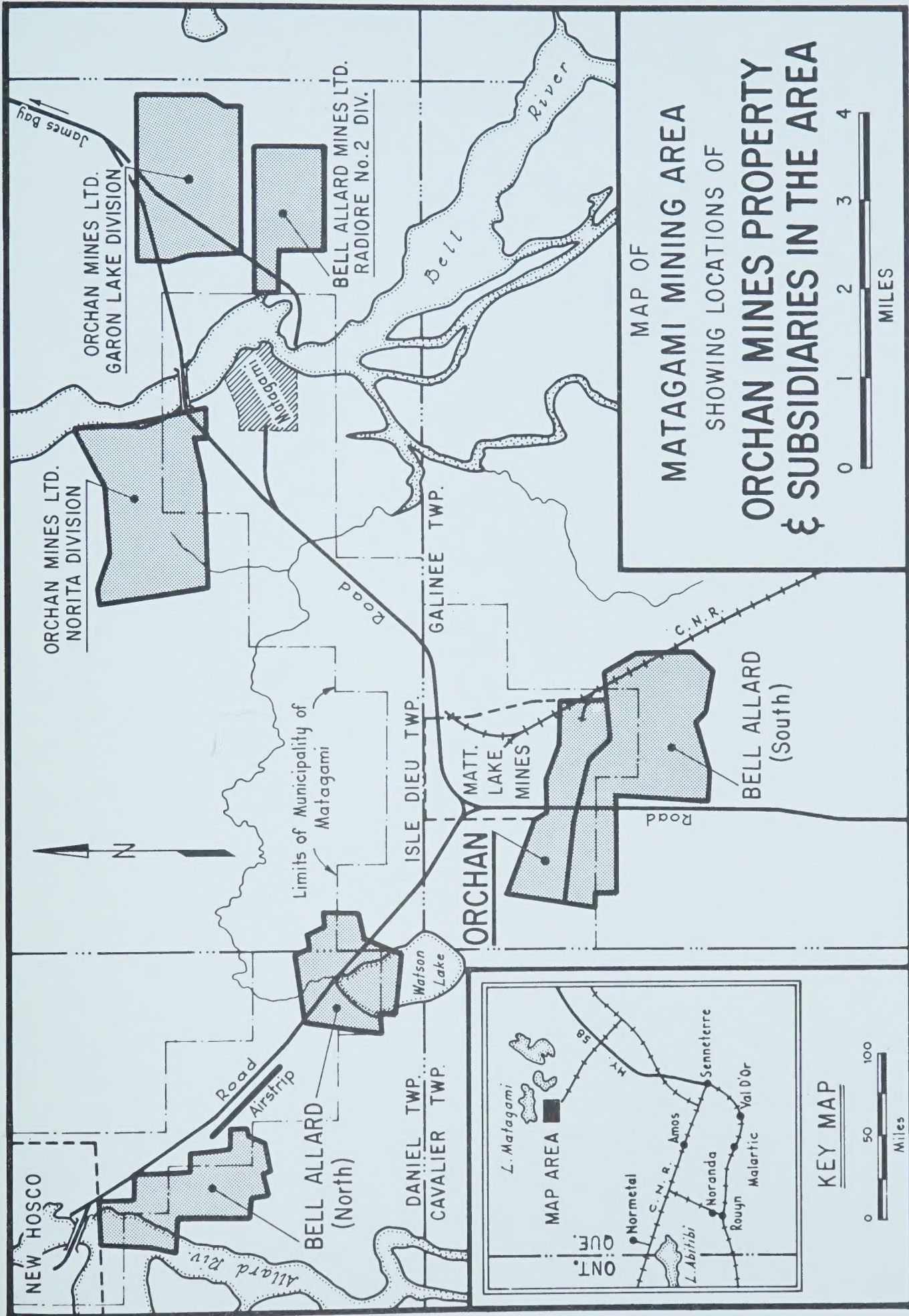
To the Shareholders of
Orchan Mines Limited:

We have examined the consolidated balance sheet of Orchan Mines Limited and its subsidiaries as at December 31, 1972, and the consolidated statements of operations and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the possible additional liability for income taxes as explained in note 3, and except that the provisions for income taxes and Quebec mining duties have not been computed on the tax allocation basis as explained in note 2, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 6, 1973.

CLARKSON, GORDON & CO.,
Chartered Accountants.



MAP OF
MATAGAMI MINING AREA
SHOWING LOCATIONS OF
ORCHAN MINES PROPERTY
& SUBSIDIARIES IN THE AREA

